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OUTSOURCING VS INSOURCING
ANALYSE THE BUSINESS PROPOSITION IN THE CASE OF
CHESTER RACECOURSE'S CATERING CONTRACT

EDWARD GRETTON

A dissertation in partial fulfillment of the requirements of the University of Chester for the
degree of Masters of Business Administration

CHESTER BUSINESS SCHOOL
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Abstract

This research paper looks at the strategic business process of sourcing and how it has evolved within theory and practice. The main aim of the paper is to comment on and provide recommendations for Chester Racecourse's decision as to whether it takes its catering operation in-house or remains with an external supplier.

Based on the study of Chester Racecourse's current situation and a review of the literature, the paper proposes the best fit strategic framework for the sourcing decision and its implementation. This framework is developed using both the existing theories from the literature and also through a qualitative research method. This process uses interviews with key executives both within Chester Racecourse and also in other organisations of different scale and scope that have made similar decisions. The paper then proposes and develops a framework which best suits the specific needs of Chester Racecourse.

The sourcing decision-making, implementation and resulting impact on an organisation involve a complex and dynamic process. There are suggested existing frameworks in the literature, although most of these centre on the outsourcing decision as opposed to the in-sourcing equivalent.

The paper concludes that Chester's best decision is to in-source this function, as it is so closely aligned with its core product and revenue streams, as well as its strategic aims going forward. There are, however, considerable risks associated with this and the paper puts forward methods by which these can be mitigated.

Declaration

This work is original and has not been submitted previously for any academic purpose. All secondary sources are acknowledged.

Name: Edward Peter Gretton

Signed: _____

Date: 14/09/2009

1. Introduction

1.1 Background to the Research

This research project centres on the process by which a business might decide to outsource or retain in-house one or more of its activities. It is intended to examine how this decision is made and the main factors that could influence such a decision. The process of the change between outsourcing and in-sourcing these activities will also be scrutinised so as to identify the most important and relevant factors aligned with its potential success or failure, as well as the necessary business strategy for its continued successful operation.

As a business practice, organisations have been choosing to provide aspects of their operations from an outside source [i.e. outsourcing] for many years (Winkleman et al 1993). However, as outsourcing has become more widespread and developed over the course of the past twenty years, the strategic importance of the sourcing decision and the factors behind it have become more theorised and researched.

This subject area is currently relevant to Chester Race Co. Ltd. (CRC), as it is considering its options regarding the tendering of its catering contract for 2010 onwards. The catering and event management is a considerable part of the business and the current 5-year contract with an outside caterer terminates at the end of 2009. The options are to re-offer the contract to the same or another catering provider as part of an ongoing strategic alliance or to take the operation in-house, something that CRC has never done before.

1.2 Research Question

The fundamental problem addressed in this paper revolves around how CRC should move forward in deciding whether to continue to use an outsourced provider to fulfill its catering and event management capabilities, or whether it should bring the operation in-house as a division of the company: Outsourcing Vs In-sourcing - analyse the business proposition in the case of Chester Racecourse's catering contract.

In order to answer this question and draw overall conclusions, it will be necessary to gather information and knowledge from a number of concomitant research topics. These were identified as part of the initial research proposal:

1. To understand and analyse contemporary and past literature and theories on the reasons for the outsourcing of a business' activities (core/non-core) and their financial, HR and operational implications, with special emphasis on:
 - a. Identifying best practice for assessing whether or not to outsource an activity.
 - b. Proposing a framework for the delivery of the potential change from/to outsourcing and in-sourcing.
2. To investigate real outsourcing/in-house situations at venues (racecourses, conference centres etc.) when the catering function has changed from one to the other.
3. To apply this best practice and framework to the CRC catering contract so as to understand the best way forward for CRC and to be able to make recommendations on how the process should take place.

1.3 Justification for the Research

Outsourcing has evolved from a basic concept in industry to a complex and prevalent strategic tool used across all business sectors. It is perceived as helping an organisation to gain competitive advantage in the sphere that it operates in several different ways. The bank of literature on the subject covers a diverse set of business sectors from manufacturing to the IT industry and considers the wide ranging implications of success and failure of the sourcing model.

For CRC, the decision on the catering contract is a crucial one for the organisation as it bids to continue to strengthen its financial platform. Over the past 10 years, CRC has vigorously followed a policy of development and growth, investing more than £12 million in the building of an on-site hotel, the acquisition of another business (Bangor-on-Dee Race Co. Ltd) and the major development of new facilities to drive both its horse racing business and the events business that runs alongside it right throughout the year. The catering and events operation is intrinsically linked to all these income streams, and therefore, it is of vital importance to CRC to ensure that it continues to derive good revenue from it.

1.4 Methodology

Although the methodology behind the research is fully set out and justified in Chapters 2 & 3, a brief overview of the intended research methods is follows below.

Initially, the paper will conduct a review of the available literature, both contemporary and historical, on the outsourcing of a business' activities and its strategic, financial, structural and operational implications. The review will look to identify best practice for assessing whether or not to outsource an activity and to propose a framework for the delivery of the potential change from/to outsourcing and in-sourcing.

Further to this and using qualitative research methods, the paper aims to investigate real sourcing situations for the catering function at Stadia similar to CRC (racecourses, football grounds etc.), the main body of which will be achieved using semi-structured interviews with key personnel. This will be looked at in conjunction with research into other examples from different business sectors to see if there are other lessons to be learned.

Finally, the paper will look to apply the best practice and framework to CRC's current situation so as to be able to recommend the best way forward for CRC with its catering contract.

1.5 Outline of the MBA Dissertation

Literature Review (Chapter 2)

Following the introduction, the literature review aims to distil the existing literature in this subject field (Rowley and Slack, 2004) and to provide a background to and context for the research. By focusing on the themes that come out of the research question, the chapter will bring together the amalgam of theory on the subject of sourcing, as defined above, and pull together a conceptual model relevant to the research question.

Methodology (Chapter 3)

The methodology sets out how the research was undertaken and justifies the reasons behind it. This includes looking at the origins of the research question itself, the way the literature review was approached and an in-depth justification of the methods used to obtain the data and information needed to achieve the research's aims.

Findings (Chapter 4)

The 4th Chapter presents the findings of the qualitative research undertaken, as well as analysing the realities of CRC's position. The findings are then summarised along the lines of the information drawn out of the literature review.

Conclusions (Chapter 5)

The penultimate chapter aims to bring together the findings from Chapter 4 and combine this with the conclusions of the literature review to answer the research question and its subsidiary questions.

Recommendations (Chapter 6)

Finally, Chapter 6 will offer some valid recommendations as to the sourcing issue facing CRC: what direction the company should take, how it should do it, what the risks are and how it can ensure the ongoing success of either outsourcing or in-sourcing the catering operation.

1.6 Definitions

It is important to set out the full definition of certain terms and organisations that crop up during the paper, as well as setting out any underlying assumed positions:

<i>Outsourcing</i>	The practice of seeking outside organisations to carry out and provide activities and services previously performed within the business (Burnes, 2004).
<i>In-sourcing</i>	The act of bringing a business activity or service back into an organisation, having had that activity provided by an outside supplier.
<i>Chester Race Co. Ltd (CRC)</i>	Chester Race Co. Ltd operates as a group with the following divisions: Chester Racecourse, Bangor-on-Dee Racecourse, the Express by Holiday Inn at Chester Racecourse and Restaurant 1539.
<i>The catering contract</i>	<p>The catering contract at CRC comprises:</p> <ul style="list-style-type: none">a) the sole and exclusive right to provide catering services within catering areas at Chester and Bangor-on-Dee Racecourses on racedays;b) the responsibility to manage and cater for functions and events etc on non racedays at the same venues;a) through a joint venture, the management and running of Restaurant 1539 at Chester Racecourse;
<i>The current catering supplier</i>	The current catering contractor at CRC is Heathcotes Outside Ltd. This company is approaching the end of the first term of their first contract at CRC (Jan. 1 st 2005 to Dec. 31 st 2009 inclusive).

1.7 Summary

In summary, within chapter 1 the general research question and its aims have been identified, justified and clearly set out. The methodology has been sketched out and the boundaries of the project defined by the subject matter. The next step is the detailed description of the literature review.

2. Literature Review

2.1 Introduction

A good literature review will critically summarise and assess the range of existing materials dealing with knowledge in a given subject (Anon. 1). This chapter will interrogate literature relevant to the topic areas that have been identified as to the research question and the references are mostly from the last 10 years. However, the theory of out-sourcing has been a recognised and reported on business process since well before 1990 and so earlier references do have some merit in terms of understanding previous development of sourcing theory.

Saunders et al (2007) define a method for conducting a literature review (Figure 1), describing it as an on-going refining process which slowly centres in on the most significant sources and this model was used for this review:

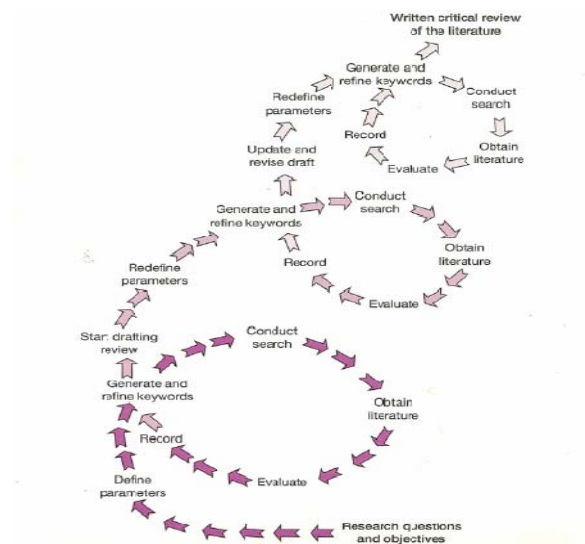


Figure 1: Saunders et al (2007, page 56)

Starting with the concomitant research aims (chapter 1.2), the following questions have been worked up as offering the best route for exploring the relevant literature:

- a) What are the key motivating factors in the sourcing decision, how are these assessed and which of the factors carries the most weight?

- b) What frameworks are put forward to structure the sourcing decision and implementation process?
- c) What are the risks and how can they be mitigated?
- d) How will the company structure and culture have to change to effect successful management working relations when either outsourcing or bringing a service in house?
- e) What is the impact of TUPE legislation?

Having examined the literature through answering these questions, in **2.3**, the paper will put together a Conceptual Model and in **2.4**, will then summarise the chapter's findings.

2. 2. a) What are the key motivating factors in the sourcing decision, how are these assessed and which of the factors carries the most weight?

The question of what to make in house and what to buy from another source is an issue as old as the manufacturing activity itself (Probert, 1996). Dubois (1998) indicates that even in the 18th and 19th centuries, for ship builders and the textile industry, sub-contracting was prevalent; Blumberg (1998) points out that outsourcing has been with us since ancient times, when empires hired troops of other nations to guard their borders.

In the 20th century, the Henry Ford model of complete vertical integration meant that the Ford Company even produced the raw materials for the car seats in their automobile production on Ford-owned farms, whilst driving science forward to come up with a man-made fibre that was cheaper and easier to make. This strategy of vertical integration was followed by many organisations for a long period and as a result, until the end of the 1960's, most nations only exchanged either raw materials or finished products (Dubois, 1998).

Blumberg (1998) writes that the rational behind this mode of thinking (i.e. vertical integration) was that internal operations, particularly through centralised management, could provide the greatest amount of management control over efficiency and productivity.

However, in the past 30 years with the development of technology and the increase in globalisation meaning new competitive pressures, the practice of outsourcing has spread with firms using this strategic tool to leverage their internal and external resources, their capabilities and their competences in order to gain competitive advantage (Kavcic & Tavcar, 1998). For Jennings (2002), it was the absence of outside markets that forced organisations to source a wide range of upstream and downstream activities in house. It has only been developments in the scope of the supply source markets that have allowed the strategy of vertical integration to be challenged.

Factors

The idea of cost as being a major driver in the outsourcing decision is a concept put forward by much of the literature. However, it is not the sole one and three other significant factors are recognised, all of which will be examined in turn:

- *Cost*
- *Strategy*
- *Contextual Factors*
- *Political* (public organisations/companies)

Cost

Initially, much of the theory on outsourcing produced in the early 1990s made the underlying assumption that outsourcing can, by itself, reduce costs of service and/or increase efficiency (Blumberg, 1998). At a basic level, certainly in the manufacturing sector, outsourcing for cost reasons can occur when a supplier's costs are low enough that even with added overhead, profit and transaction costs, suppliers can still deliver a service for a lower price (Kremic et al, 2006). This higher level of efficiency can be achieved through specialisation (i.e. greater technology or knowledge) or through economies of scale on the behalf of the supplier.

Alexander and Young (1996), however, point that out that this is not always the case. Sometimes, a large organisation's internal economies of scale can be greater than that of

potential suppliers; in other cases, a firm's expertise or technological knowledge might be so specialised that no supplier will be able to match it and thus maintain the necessary quality.

The notion of being able to lower costs whilst maintaining revenue streams and quality of product is one that is extremely attractive for any business and cost efficiency was still the primary explanation for the development of outsourcing in 2000, according to Fill & Visser. However, unfortunately it is also well-recorded that failure to achieve anticipated cost improvements is a frequently occurring aspect of outsourcing (Jennings, 2000).

This was looked into further in 2006 by Jiang and Qureshi, who find that although much has been written on understanding outsourcing decision determinants, the specific impact of outsourcing on firms' performance and value has not been confirmed by research. They also find that of the specified evidence, much is anecdotal and recommend that future research must use accredited financial data, as well as an assessment of the positive or negative link between companies' outsourcing decisions and their stock market value. It is only in this way that they believe that the full impact of outsourcing can be objectively measured.

Following on from this paper, Jiang, Frazier and Prater (2006) tried to develop an empirical, hard data-based, framework for assessing the success or not of the sourcing process. Using control groups and specific performance matrices (cost efficiency, productivity and profitability) measured in detailed ways, they did manage to come up with a basic framework. However, this research was again limited as their financial data could not be extracted from sector specific areas within large organisations, but they instead had to take the respective organisations' results as a whole. To compound this, as it is only major outsourcing deals that are announced in the trade press, they could only work with such examples, i.e. large complex organisations.

Various methods are put forward as to how to calculate the potential cost of outsourcing an activity as compared with fulfilling it in-house. Fill and Visser (2000) found the transactions cost theory most appropriate, whereby managers must consider both the actual production costs and the coordination or transaction cost. Normally, with economies of scale, production

costs will be lower from a dedicated supplier; however, the transaction cost, whereby the buyer has to monitor the performance and behaviour of the supplier on an ongoing basis, can be much higher than originally forecast. If the buyer is not careful, coordination costs can rise to the point where they negate any savings made on production efficiencies, which obviously negates the positive financial benefits of outsourcing.

Probert (1996) also argues for the transaction cost analysis but takes it a step further, stressing the need to benchmark both the internal and external suppliers as well as an “ideal Greenfield scenario”. This allows the management to compare the current situation by forming a picture of the business if it were to be established afresh, unconstrained by inherited conditions (Brannemo, 2006).

McIvor (2000) takes a model that is based on total cost analysis, or a comparison of all costs associated with the acquisition of the specific activity throughout the supply chain, whether sourced in-house or externally. In order to get a full and accurate picture of these costs, McIvor (2000) points out that the data requirements are quite formidable and this is perhaps a reason behind the findings of Jiang and Qureshi (2006) – i.e. it might be impossible at times to get hold of the necessary and fully-accredited information.

In order to accurately measure the costs of a sourcing decision, McIvor goes on to suggest the activity-based cost management system as opposed to the conventional resources-used system; he deems this as necessary in order to properly benchmark the internal operation against the potential supplier. Brannemo (2006), having acknowledged these different methods, finds that whichever cost analysis is used, that same approach must be consistent in the benchmarking process. Further down the line, after a planned period, the same methods should again be used to get the most meaningful comparison and therefore indication of the process’ success or failure.

It would appear that financial considerations have the most influence on the sourcing decision. Also, throughout the literature, there is little reference to in-sourcing as the focus is almost completely on the potential benefits of using an external supplier, or outsourcing.

However, as we build a picture of the major factors affecting the sourcing decision and then a framework or structure by which to go about the process, it is likely that the suggested outsourcing criteria (benchmarking, cost calculations, risk etc.) will be equally applicable as a reverse formula.

Strategy

After cost, strategic factors take most precedence in the sourcing choice. An organisation's decision to change its policy away from vertical integration and to begin to outsource parts of its operation is potentially vital to the company's future.

When writing of the service industry, Blumberg (1998) opines that a full strategic assessment must be carried out before the sourcing decision is completed. The main factors within this are aimed at the importance of the service or product, the market's perception of the quality of the service or product and thirdly, the actual levels of service/quality of product as compared to current competitors. Evidently, this is an industry-specific observation, but the importance of a strategic approach is clear for any sector. The impact on the quality of the company's output as a result of outsourcing has to be of primary concern – that quality establishes reputation and demand and therefore profit. By outsourcing part of the operation, if there is any chance of that quality and perceived quality on the part of the customer being compromised, then there must be doubt that outsourcing is the right decision (Kremic, Tukel and Rom, 2006).

When considering sourcing strategy, an organisation will look at each activity across the value chain of its operation in order to decide whether to seek external or internal provision. In the early stages of the outsourcing movement, activities that were put out to external suppliers were those with little risk attached: cleaning, catering, payroll etc. Arnold (2001), Alexander & Young (1996) and Kakabadse and Kakabadse (2000) all put forward a way of defining a company's activities as either:

- Core: activities that are necessarily connected with a company's existence and that are both critical to business performance and offer long-term competitive advantage.

- Core-close: activities that are directly linked with and support core activities, but that are perhaps peripheral and intermittent
- Disposable: activities that are generally available i.e. cleaning, catering and payroll

For Jennings (2001), a company's core capabilities are unique and central to that organisation's competitive advantage and its ability to make a profit. In order for a company to be able to differentiate itself in the market that it operates in, it must retain these core competencies in-house, whilst disposable or non-core activities can be outsourced. Kakabadse and Kakabadse (2000) make the point that defining what the core competencies are for any one organisation is fraught with ambiguities.

However, by outsourcing support activities, resources can be redirected and focused on the core competencies that can make the most impact. Fill and Visser (2000) state that as well as allowing management to concentrate more fully on the core business activities, it also allows a company to leverage its financial resources and share its financial risk:

“This approach to refocusing and strategic hollowing goes well beyond mere tactical redeployment for the sake of efficiency.” (Fill and Visser, 2000)

Here we begin to see a change from cost as the primary driver and Kremic et al (2006) see outsourcing as moving from cost to strategic issues. Freytag (2007), Phelps (1998), Jennings (2002) and Kremic et al (2006) all highlight other strategic benefits of outsourcing above and beyond being able to better focus on the core activities:

- Flexibility
- Access to superior quality
- Access to new technological innovation, specialised expertise or new markets.
- Sharing of risk

Outsourcing gives an organisation great flexibility to respond to changes in market conditions (Kakabadse and Kakabadse, 2000), which could allow, for example, a company to meet changes in the volume of its sales without the constraints of its in-house productive capacity (Jennings 2002) i.e. coping with periods of under or over capacity.

Phelps (1998) notes that if outsourcing is considered as part of a long-term strategic plan, then it can give companies the innovation and flexibility to continuously improve, as well as gaining access to expertise and the resources needed for survival. The flexibility that outsourcing gives can also benefit a company when it is going through rapid change; for example, either when a company is restructuring or going through rapid organisational growth.

In earlier literature on partnership sourcing, Brown, Boyett and Robinson (1994) comment that many organisations claim to have been able to improve their products and services as a direct result of sourcing parts of their business externally. Blumberg (1998) observes that this new outsourcing flexibility gives a company the opportunity to test demand for new products or services in a less-risky, more cost-effective way, rather than overstretching internal resources and losing focus on other activities.

Jennings (2001) discusses how outsourcing can give access to new or important technologies that might be peripheral to one's main product development. He sees it as unlikely that a company lagging in technology can move to a position of market dominance and therefore, by outsourcing less important aspects by drawing on the knowledge of external suppliers, the expensive central technological progress can be suitably financed and receive its due focus.

Contextual

Contextual factors relate to the industry, market and competitive environment within which a particular company operates and can have a strong influence on the sourcing decisions, often being closely linked to the strategic issues that have been discussed.

When analysing the potential benefits of sourcing an activity, there are quantifiable elements such as changes in overheads, projected efficiencies and extra revenue (Fill and Visser, 2000). However, there are also unquantifiable drivers that can only be assessed in each different context.

Kremic et al (2006) list a number of these potential issues for a company to consider. Firstly, the unique or highly specialised nature of a business' activities might make it difficult to find a suitable supplier with the necessary expertise. They also point to potential internal political scenarios when human nature might influence the decision, i.e. an individual has a preference for a certain activity to remain in-house, even though the business case might clearly point to another conclusion. Thirdly, they mention the legal factors and conclude that the more legal obstacles there are (in the form of linked contracts, union involvement etc.), the less likely a particular activity is to change its source from or to an internal or external supplier.

Both Kremic et al (2006) and Jennings (2001) also dwell on two other areas: the competitor and supply environment. A company's position in its market place will have implications on its desire and need to change its sourcing policy. If it is continuing to be successful directly in comparison against other competitors, then why change? To counter this theory, it is often argued that if an organisation's rivals are actively outsourcing a function, then it is likely that a company might well follow suit anyway.

The supply environment is another factor and Kremic et al (2006) highlight the dangers of outsourcing into a limited supply market which might be uncompetitive in price. There is also the balance to consider between single and multi-sourcing, as discussed by Faes and Mattyssens (2009). They look at a newer trend for businesses to change between these two strategies and try to identify the benefits and disadvantages of each one. On the one hand, single sourcing ones needs from one organisation is likely to be cheaper and easier to manage; on the other hand, it can also lead to high dependency of both partners on one another. Should the contract not work out as expected, the buyer could then be left with a high "switching" cost which had not been foreseen and therefore not budgeted for.

They conclude that multi-sourcing tends to be more prevalent when there is uncertainty and a rapidly changing market environment, whilst a single source strategy comes to the fore in less dynamic and mature markets when cost is the main focus.

A final strategic aspect to sourcing is picked up by Brannemo (2006) who expands on a theory developed by Hagg et al (2004) that is termed “Rightsourcing”. According to Brannemo, recent business activity has focused on outsourcing; sourcing in one direction like this can only be sub-optimal for the company. To continue to be competitive and avoid this sup-optimisation, companies need to actively and strategically apply an in- and outsourcing approach.

Political

Public organisations often have the image of being huge, bureaucratic and inefficient. It is understood, however, that regional authorities, for example, have an extremely wide range of services to provide and that there are significant factors that have major implications on their ability to operate which a private company does not have to contend with.

These factors will tend to be social rather than economic. Kremic et al (2006) point to the different motivations for outsourcing between the private business, which provides a service or product in order to make money, and the public organisation, which is attempting to provide general well being. This aspect can also be influenced by the political leaning and policy of the government at that point in time. Lin, Pervan and McDermid et al (2007) comment that politicians can be motivated by self-interest linked to a desire for power, as well as the broader interests of maintaining loyalty to work groups and agencies. This, coupled with the desire to align public-sector agencies with the ideology of the government providing the funding, can mean that the sourcing decision is heavily distorted from the outset, starting from a premise far removed from that of the motivations for a private company.

The recent history of outsourcing in the public sector began with the introduction of compulsory competitive tendering (CCT) in the 1980's, when the Conservative Government

were aiming to change and diminish the role played by local authorities in service provision (Drake and Davies, 2006). CCT meant that any service provided by a local authority valued over £50,000 had to be tendered for by both the local authority's own internal service and could be tendered for by any other private company, with the contract being awarded entirely to the best price.

In 1998, the Labour Government replaced the CCT initiative with a Best Value Regime, whereby other factors, not just cost, had to be considered by local authorities when awarding contracts for their services either internally or externally.

2. 2. b) What frameworks are put forward to structure the sourcing process?

As noted previously, much of the literature dedicated to the framework and structure of the sourcing process refers exclusively to outsourcing rather than that of bringing an activity in-house. Although a limiting factor, the research finds that many of the features and processes of the models examined can be similarly applied to in-sourcing and this was assumed during the literature analysis.

What is the relevance of providing a structure and framework for sourcing? For Power, Bonifazi and Desouza (2004), successful outsourcing relies on an organisation identifying, establishing and implementing proven methodologies and best practices in order to best plan what is a very complex business strategy. They note that mature organisations which are serious about their outsourcing initiatives believe that outsourcing is a core competency in itself and critical to competitiveness.

In terms of deciding which activities to outsource, the literature has in general suggested that core competencies should remain within the organisation and therefore it is important as part of this framework to be able to classify a business' activities as core, close-core and disposable. Goddard (1997) defines core competencies as having certain critical properties:

- Imbued with experiential/tacit knowledge

- That which the company does better than its competitors
- Embedded in the company's *modus operandi* and 'intelligence'
- Rare – only 2 or 3 activities that are critical to the company's success
- Source of the company's ability to deliver unique value to customers
- Intrinsic to the company's ability to take advantage of future opportunities

McIvor (2000) assumes in his framework that in general, all non-core activities will be outsourced with a company then building its strategy around its core competencies and activities. This approach is also followed by Kakabadse and Kakabadse (2000), who use international companies as examples: Nike outsources all shoe production and concentrates on research and development as well as the distribution and sales and marketing. Apple, one of the world's leading manufacturer's of computer, networking and communications products have resorted to "turnkey contract manufacturing" with their entire manufacturing process being outsourced to overseas manufacturers (Pai and Basu, 2007). This allows them to focus on the development of their unique operating system and new technology, as well as branding and distribution.

It would appear that on a global scale, vertical disintegration of the organisational structure has major benefits. Unfortunately, this literature does not refer to smaller organisations where potentially beneficial outsourcing might relate to only one aspect of that company's value chain due to economies of scale.

At whatever level or scope, McIvor (2000) insists that such is its significance, the outsourcing process should be carried out by senior management and care must be taken to ensure that the long-term strategic considerations and benefits of each activity are assessed. The need for careful analysis echoes Probert (1996), who stresses the importance of assessing the overall strategic position, its possible implications and the key success indicators in relation to the potential sourcing change. This can be done in a variety of ways, but by using methods such as SWOT analysis and Porter's five forces analysis (Porter, 1979), the

management should come to a form of agreed consensus that will identify the core areas within the company.

Having established the core competencies vital to competitive advantage, the paper now examines the next stage of the sourcing process, which is how a company will review a particular activity and weigh up their options.

During their research, Harland et al (2005) noticed the lack of research-based managerial or policy guidance on the sourcing decision in existing literature. Kremic, Tukul and Rom (2006) note that whilst there is an abundance of general information on outsourcing, there is little structured information that supports the decision method.

However, this study has found a range of examples of theory which together help set out a framework for the sourcing process and implementation. Of these, Kremic and Tukul (2003) use the following model to take the company through the initial decision process:

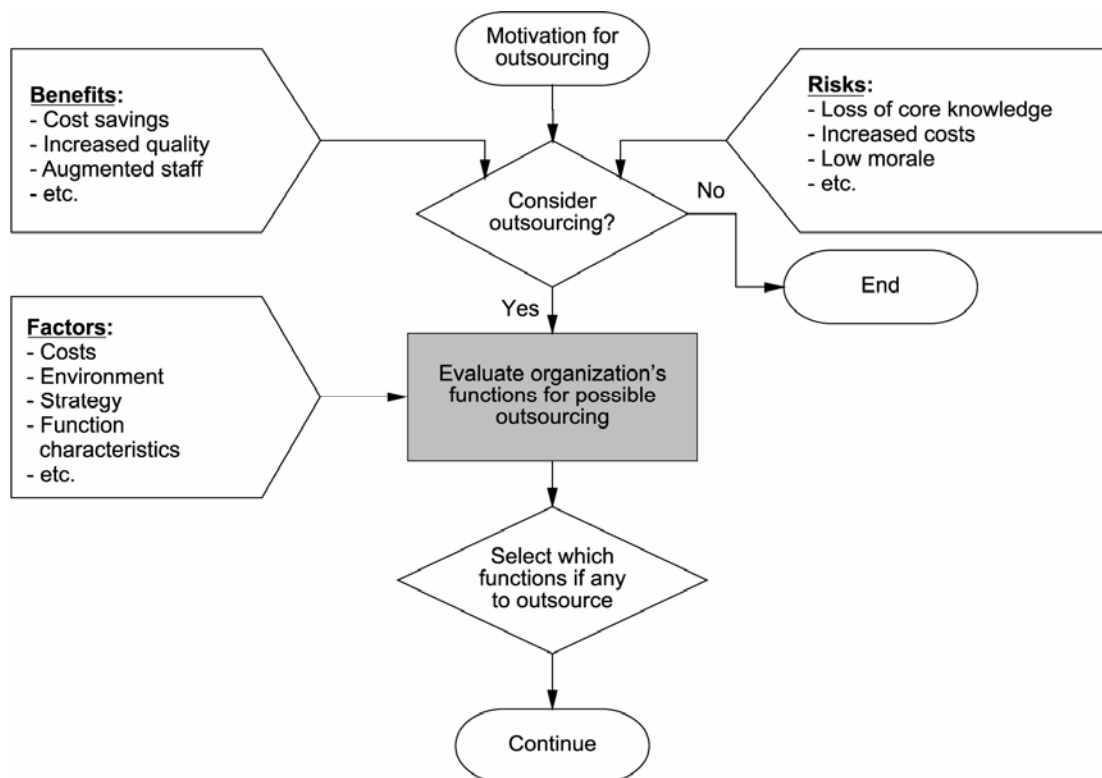


Figure 2 – Kremic and Tukul (2003)

In Figure 3, Fill and Visser (2000) have also put forward a basic framework model to show how the main outsourcing drivers can fit into the decision process:

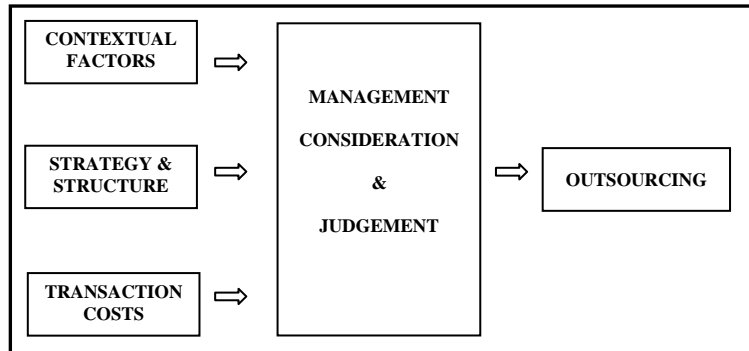


Figure 3 – A composite outsourcing decision framework (Fill & Visser, 2004)

The contextual factors and strategic implications are broken down into further detail alongside the cost implications. They are then assessed using certain questions and criteria as a rating method for discerning a particular activity's suitability for outsourcing.

Whilst Kremic and Tukul's model stresses the strategic and contextual factors, the financial aspects to the decision play an even more significant role in the work of Fill and Visser (2004), McIvor, 2000) and Probert (1996). The different methods of financial analysis have already been studied, with the total cost (McIvor, 2000) and transaction cost (Probert, 1996) theories put forward as viable tools for analysis of a company's internal costs. The difficulty comes when benchmarking these results against those of potential suppliers, as suppliers are potentially not going to be that enthusiastic about sharing sensitive data on cost and profit margins. Phelps (1998) emphasises the need not to base the decision on the lowest cost, but rather to seek the best quality at an affordable price.

Having followed this framework, the company will now have made a decision as to whether or not outsourcing is the right direction to take. If that is positive, then the next move is to find the right supplier and initiate the relationship. Instead of a straight supplier-buyer relationship, strategic outsourcing theory has developed this link into a 'strategic alliance'. Zineldin and Bredenl w (2003) theorise that the ability to create and nurture a true

partnership with a supplier that is based on trust can give organisations significant competitive advantages. Although there is a cost to initiating this kind of partnership (Phelps, 1998), one could draw the analogy of a happy, fruitful marriage vis-à-vis an expensive and fractious divorce. Zineldin and Bredenl w (2003) identify the following areas as being key to building a successful alliance:

- Individual willingness, motivation and strategic fit
- Interdependence
- Cultural fit and organisational synergies
- Integration and integrity

Although cost is important, the choice of supplier in the outsourcing process has wider strategic ramifications and ensuring that the relationship is a true partnership will increase the benefits for both parties and reduce the risk of failure.

Having identified the best and most appropriate supplier, the next step is agreeing the terms of the supply contract. Zhu, Hsu and Lillie (2001) note that a successful outsourcing process starts with a good contract and it follows that its terms must be clear and realistic, and that it must also fit well with the capabilities of both parties. Before implementation, Zhu, Hsu and Lillie (2001) also list a number of other functions that must be performed in order to effect a good transition:

- Agreed timeline for implementation
- Communications Plan – clearly set out
- Employee knowledge – vital that employees know what/how/when is happening and are motivated to buy in to process
- TUPE implications and pay/conditions detail all covered
- Physical requirements – Office space, computer systems etc in place

Planning for the transition is vital for an orderly and planned transfer to the new provider of the product or service, both in ensuring continuation of service to ones customers as well as focusing on the employees at all levels who are involved in the process (Kakouris, A, Polychronopoulos, G, Binioris, 2006).

Kakouris, Polychronopoulos and Binioris (2006) also discuss the length of the transition period: if a longer transition period is planned for, then there is more scope for delay, and even sabotage, although any problems that occur will be able to be ironed out and not affect the process. However, a speedier process will make dealing with any issues effectively and quickly a real challenge, albeit reaping the proposed benefits of the change as soon as possible.

2. 2. c) What are the risks and how can they be mitigated?

The chances of an organisation not achieving the forecast benefits from outsourcing is high and McIvor (2000) quotes a survey which suggested that only 5% of companies surveyed achieved significant short-term benefits from outsourcing. According to Jiang and Qureshi (2006), risk control is a necessary part of outsourcing; at a basic level, controlling the value and the length of period associated with the contract is key to controlling risk. In Figure 4, their approach takes risk control as the primary factor in their outsourcing model:

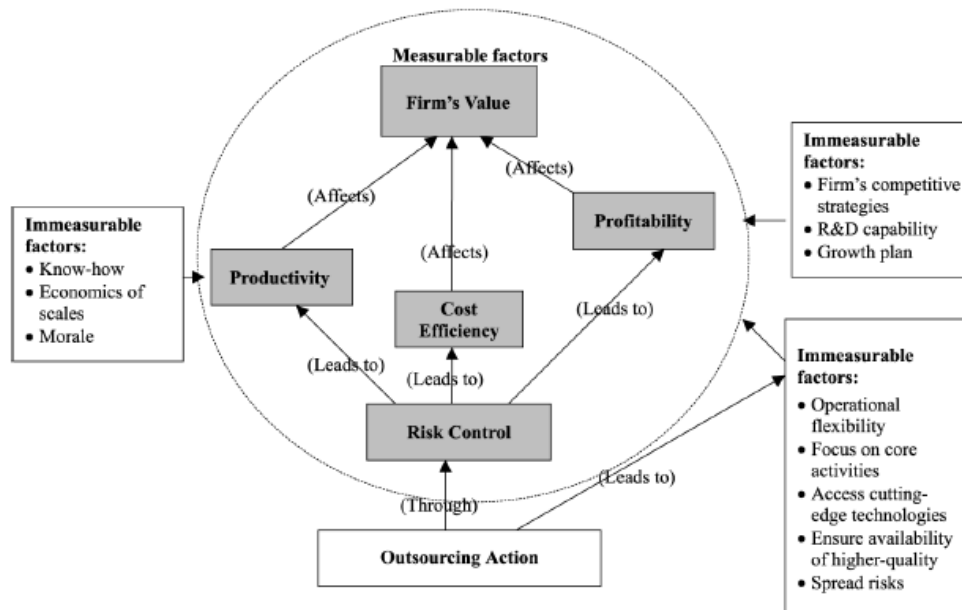


Figure 4 – Framework of outsourcing results analyses (Jiang & Qureshi, 2006)

Power, Bonifazi and Desouza (2004) write that some organisations begin their outsourcing process by addressing what happens when the relationship ends: i.e. what contingencies are in place? The worst case scenario of the contract being terminated and the resulting significant implications for other parts of an organisation must be taken into account. By carefully identifying risk and implementing risk reduction strategies at the beginning, this reduces the chances of that happening, as well as any other unwelcome surprises for both parties. However, the more complex and longer the timeline of a contract, the more chance that some risk will be buried deep within it (Jiang and Qureshi, 2006).

The first main area is that of the actual supplier and Jennings (2001) insists that the service capabilities and financial strength of the supplier must be assessed accurately for the outsourcer to be completely satisfied that they will be able to fulfil the terms of the contract. There are three other elements to the supplier relationship of which the first is intangible:

- The supplier must fully understand the customer organisation's aims and what he intends to get from the contract, as well as the organisation's culture, mission and standards (Jennings, 2001). Without a form of psychological contract, whereby both operations are pulling in the same direction to optimise the relationship, the chances of failure are increased.
- The outsourcer must also be reassured that the supplier will deliver the expected quality of product and has a good reputation; this is in order to avoid the risk of customer perception of the product being damaged by the change from internal to external supply (Blumberg 1998).
- Thirdly, if the contract is over a long period, the outsourcer must also consider the flexibility of the contract and the supplier's ability to cope with potentially changes to the relevant markets.

Returning to the outsourcing organisation itself, there is a risk that management and employees are not behind the project for several reasons. The communication of the implications of the sourcing for the employees is vital. Rumour can spread fear and apprehension that will result in lowering productivity and employee morale (Blumberg,

1998) and it is vital to act clearly, professionally and address all issues that are raised by employees. This is to avoid possible loss of core employee knowledge and experience just as the organisation needs it most at a time of change (Power, Bonifasi and Desouza, 2004).

The management of the ongoing outsourcing relationship is also vital to reduce the risk of a contract not achieving its aims. The overseeing and regular assessment of the contract is also an area that is often neglected. Brannemo (2006) notes the importance of cost accounting in the initial sourcing decision and that the same methods should be used to evaluate the financial success or otherwise of the outsourcing process against its original forecast. By introducing agreed measuring criteria on key performance indicators, both parties will be kept informed of progress and potential problems can be identified before they have become big problems.

2. 2. d) How will the company structure and culture have to change to effect successful management working relations when either outsourcing or bringing a service in-house?

The level of management capability within the potential sourcing supplier is a key criterion to the success of the future operation. The capacity and quality of the new management team and their behaviour can strongly affect the integration between or within sourcing organisations in a strongly positive or negative way. If positive, this can be the engine which then forms organisational behaviour, strengthens positive values in the relationship, and maintains a partnership ethos (Kakouris, A, Polychronopoulos, G, Binioris, 2006).

With this in mind, the management must have suitable expertise and skills to deal with this change and integration. Handfield et al (2009) believe that management must also have a strong orientation towards building binding internal relationships with stakeholders and that they must have in-depth supply market knowledge. They also note the importance of team-building skills, leadership skills, and relationship management skills.

With the suitable management team and culture surrounding the transition, Stock, Greis and Kasarda (1998) write that organisational structure provides the framework in which to

implement strategy. Bijlsma-Frankema (2001) takes this further and observes that there is a demand of fit between the environment, the external strategy and the structure. The more complex the strategy, the more organic the structure must be; i.e. it is difficult to be too prescriptive about the structure of an organisation that has either outsourced or brought in-house part of its activities until the nature of the new set-up becomes apparent through its actual operation.

The research by Riad (2007) metaphorically defines organisational culture as the social glue that binds an organisation together. By its nature, each organisation has a unique culture, albeit likely to be fairly similar to that of a comparable business. Riad (2007) has identified literature that suggests businesses with close organisational cultures will integrate more easily in a sourcing or merger situation, but warns against making this an assumption.

However, if there are cultural differences, it is important to recognise these as early as possible and develop a post-transition organisation that will work to bring the two cultures together and reduce the disparity.

2. 2. e) What is the impact of Transfer of Undertakings [Protection of Employment] (TUPE) legislation?

The impact of TUPE regulations on the sourcing process took time to be formalised since they came into force in 1982. Originally, the law did not seemingly apply to out or in-sourcing, but following a number of judicial decisions (Jeffers, 1996) mainly in the European Court of Justice, it began to apply directly. The scope of the legislation was recently extended in 2006 and has important ramifications for the external or internal provider of the service or product.

TUPE operates to transfer the employees (together with their contracts of employment, rights and liabilities) to the new provider or buyer of the service/product from the previous provider (Wallace and Basso, 2007). TUPE offers protection against dismissal for employees in connection with a transfer of undertakings and maintains employers' obligations and

liabilities with regard to their employees rights, pension provision, terms of contract etc. TUPE also obliges both the sourcing organisation and the provider to go through a specific consultation process with representatives of affected employees.

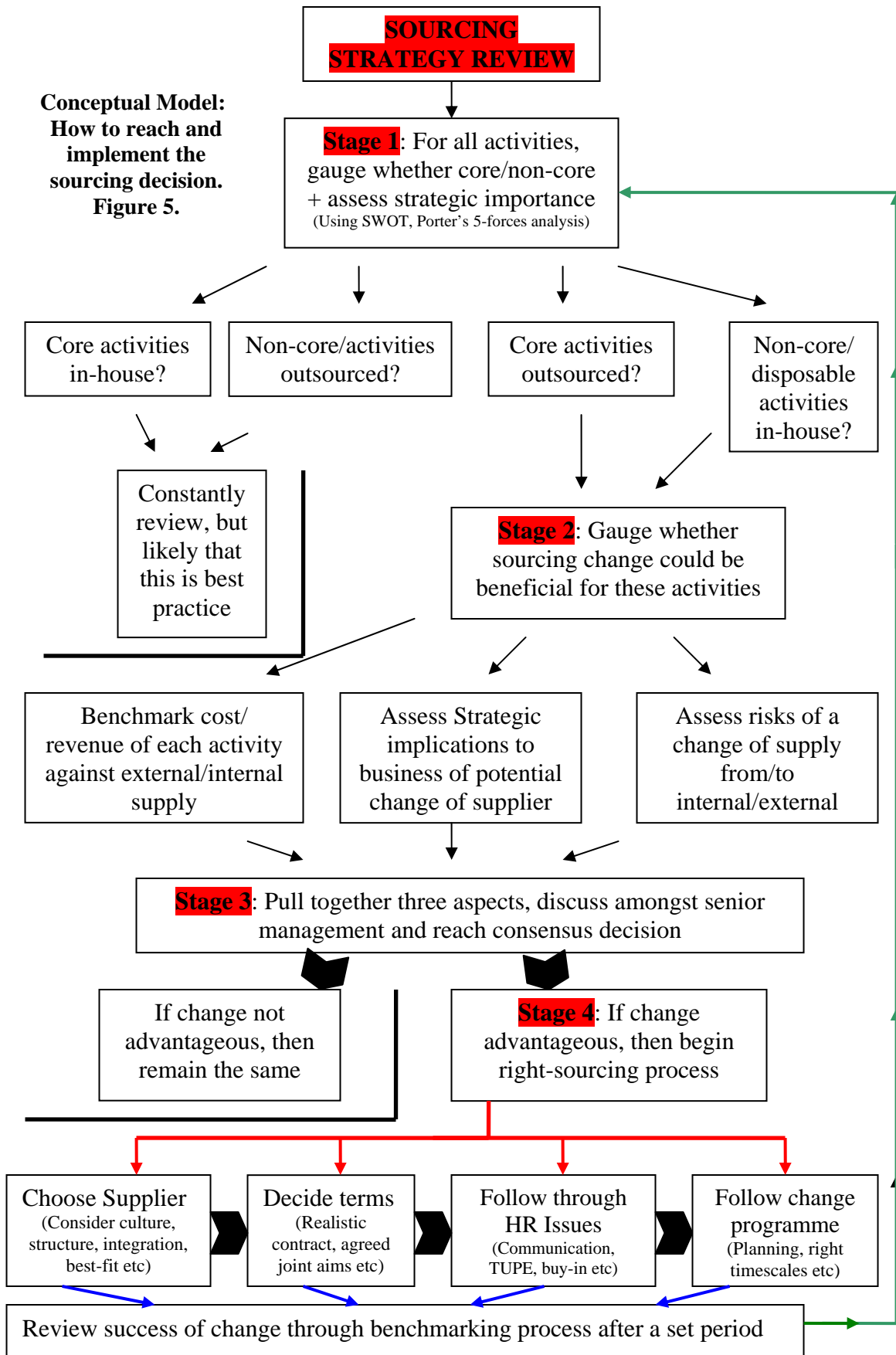
McArdle (1996) highlights that there are three different situations when the TUPE regulations may apply: when a service is contracted out, when the contract changes hands and when a service reverts in-house.

The main impact on a new provider or supplier is the requirement to take on all the employees that were previously working in this particular area or sector of an organisation. Winters (2007) recognises that organisations must take into account the costs associated with these specific employment requirements which will come in re-training and re-organising these staff through the transition period.

There is little literature that examines how one is able to take full advantage of TUPE, whilst most focuses on avoiding the legal pitfalls and subsequent costs through planning and by taking the right advice. Sourcing transitions and changes have such profound implications for staff issues that it is also argued that the human resources function on both sides should play a central role in any move to outsourcing or reverting in-house (Anon., 1998). Early HR involvement is critical to a smooth transition and is vital for maintaining employee morale and productivity during the transition.

2. 3. Conceptual Model

The explanatory conceptual model below (Figure 5.) has been established using a full review of the literature, as summarised above. Thus, although similar models were identified, none of these were applicable to this specific research. Page (2008) notes that this is often the case, as each problem situation is unique and some modification will probably be required to any pre-existing model. However, to a certain extent, this model has been built inductively (McAdam, 2003) through understanding the different theories on the main drivers behind the sourcing decision and then on the building of a sourcing framework:



This model defines the four vital stages to the strategic sourcing decision process. Beginning with a strategic overview (Stage 1), the model places central importance on the assumption, (which can be tested in Stage 2), that having assessed in full all of an organisations' activities, those designated as "core" should remain or be reverted in-house and those selected as "non-core" are eligible for outsourcing.

Stage 2 revolves around the sourcing "due diligence" where the future results of any potential change must be rigorously assessed financially, strategically and politically. A further element to this centres on the risk analysis and scenario implications whereby all possible results are considered, both positive and negative, with ways put forward to either enhance or mitigate respectively in each case.

Having carried out these tests, there must then be a consensus agreement amongst the major stakeholders, (directors, management, shareholders or employees etc), as to the direction to take (Stage 3). It is pointed out that there can be a movement either way, i.e. to retain the status quo or to try to gain competitive advantage for whatever reason and initiate that sourcing change.

Finally, having made the sourcing decision, to change either from an external supplier to in-house or vice-a-versa, there is the implementation and change phase of the process in Stage 4. Two aspects of this are important: firstly that the four key areas in this stage are fully explored and that secondly, there is a post-change review process that both learns from the change and assesses its success or otherwise.

2.4 Summary

To summarise the literature review, a significant part of the literature concerned itself only with outsourcing, making little mention of bringing an activity back in-house. However, this paper concludes that the main guiding factors, frameworks, principles and criteria applied to outsourcing can equally be applied to in-sourcing business activities. A shared view across the literature was that core activities, i.e. those that offer an organisation its principal

competitive advantage, should remain in-house. Another limitation to the body of literature concerns the lack of theory specific to the catering operation and the industry's approach to sourcing.

Beginning with the key motivations behind the sourcing decision, the literature shows that initially, this process was driven by a desire to reduce costs in the manufacturing and industrial sectors. However, as the global markets have changed alongside the development of technology and communications, the main driver behind the sourcing decision is now not just financial - strategic factors are now almost as important. Contextual factors also impact on the strategic aspect of sourcing, whilst political drivers are only really a factor in the public sector.

The frameworks put forward for the sourcing decision by the most cogent theorists are largely of a similar bent, again mostly referring to outsourcing. There is a wide range of advice on how an organisation should assess its sourcing needs, but little further recommendation as to how an organisation should progress this strategy once it has embarked on it.

The literature did comment on the success or not of outsourcing, although observations were mainly based on anecdotal evidence and not factual quantitative data. This speculative research found that outsourcing was not always as successful as it was imagined to be, with hidden factors and unanticipated costs often emerging from a new supplier relationship. In order for the supplier relationship to work, there are many factors to consider, including structural and cultural similarities between the organisations. It was put forward that the implementation of any change was also vital with good communication needed with affected employees in order to maintain motivation and productivity during the transition period.

Lastly, a risk analysis of all potential resulting scenarios of the sourcing process must be drawn up and reviewed in order to mitigate negative possibilities as early as possible during the planning phase for the supply change.

3. Methodology

3.1 Introduction

Having analysed the literature on the subject of sourcing and created a conceptual model that identifies the main stages of the process by which the research question can hopefully be answered, this section of the paper appraises and justifies the methods used during that research. This chapter will also look at the philosophy and theory behind the research, the nature of the question itself, the methodology behind the literature review and the subsequent research methods used to collate the information found in chapter 4 and draw conclusions in chapter 5.

Pring (2004) writes that research is the systematic search for evidence to answer certain questions. However, what constitutes research depends very much on one's point of view and understanding of the problem. It is normal for individuals to cherish one side of a debate and to possibly hold pre-conceived views and this emphasizes the need for critical discussion, for an openness to argument and both philosophical analysis and critique.

This holds true for this particular research question which is emic in nature as the researcher will be looking at his own organisation and using the insider's access to knowledge of that particular environment. Although this method of practitioner-researcher is helpful in understanding the intricacies of an organisation, it can also mean that the researcher is too familiar with it and therefore does not ask basic but important questions during the study (Saunders, Lewis and Underhill, 2007). For the purpose of this project, it is necessary to state that the researcher has no preconceived ideas about sourcing generally or in this particular example for CRC. All the same, he will try to ensure that the arguments on both sides are well explored.

3.2 Research Question and Literature Review

In terms of choosing an appropriate question, there are several aspects to consider. Page (2008) outlines the aims of an MBA dissertation, stating that it must:

- “Cover a field, which fascinates the student sufficiently for him or her to endure hard and solitary work;
- Build on the student's previous academic studies, and/or work experiences;
- Be of strategic importance to the student’s employer or sponsor;
- Be in an area of 'warm' research activity rather than in a 'cold', overworked area or in a 'hot', too-competitive, soon-to-be extinguished area;
- Be manageable, producing interesting results and a cohesive report in the available time;
- Have accessible sources of data.”

After consideration of many aspects of CRC’s business, it was felt that the situation surrounding the sourcing of the catering contract and its future was an exciting and relevant topic, as justified in the introduction. Also, it had the necessary positive research aspects of accessible data sources and being of high strategic importance to the researcher’s employer. The preparation of the research proposal was used as a method of refining the research question and ensuring that the project was both achievable and viable in terms of intellectual scope.

The central research question of this project looks at whether or not to take in-house CRC’s catering contract or maintain it as outsourced to an external provider. In the literature, it is accepted that outsourcing can be a profitable and strategically advantageous business move and from an epistemological standpoint, this project will test this accepted theory. Some commentators also see the potential of reverting an activity to an in-house supply after a certain period of time to maintain competitive advantage, along the lines of the Brannemo’s (2006) strategic concept of “rightsourcing” and this theory will also be applied closely.

During the literature review, two important limiting factors were identified as running through many of the chosen referenced sources: namely that there was little empirical or quantitative research to advise on the success of outsourcing (Jiang and Qureshi, 2006) and

that most of the literature tended to focus on the action of outsourcing, rather than bringing in or reverting an activity to an in-house supply.

3.3 Extracting the information

Following the literature review, there were two parts to the ongoing research methodology identified. First of these was the analysis of CRC's own potential sourcing decision using the conceptual model, as laid out in Figure 5. Due to its emic nature, the research will have access to CRC's correct and up-to-date internal figures and scenario projections. By using this information, it will be possible to apply general financial tools such as that suggested by McIvor (2000), whereby the total cost analysis is worked out in order to benchmark the current returns from an external provider against a future in-house provision. The intention in Chapter 4 is to apply stages 1 & 2 from the conceptual model (figure 5) developed in 2.3 to the strategic and financial information known about CRC and the catering contract.

However, developing this further and comparing CRC with other real sourcing situations via a benchmarking exercise is going to prove difficult (Jiang and Qureshi, 2006) with lack of access to proven and accurate data with which to correctly analyse the success or not of outsourcing. They found that most of the available data was either self reported (and therefore liable to inaccuracy) or perceptual (i.e. anecdotal and vague) reporting and therefore impossible to trust. They reported having found only 4 studies that had applied hard, empirical data to the understanding of outsourcing results, although this evidence had its limitations for general theory as each one was confined to a narrow area. Jiang, Frazier and Prater's (2006) later study created a framework by which to assess the post-sourcing result, but this was again limited by the quality of the data.

This effectively rules out using quantitative analysis as part of the methodology as firstly, there is a significant doubt of being able to gain access to the necessary information and secondly, that it will be reliable enough in any case. To qualify this assumption, the researcher did try to obtain the necessary financial information from organisations of a similar size and nature to CRC that had outsourced or taken in house their catering function. However, whilst these organisations were happy to talk about the overview of the sourcing

effect, the fact that they were by their nature a form of competitor meant that they were unwilling to divulge information of this sensitivity.

Cassell et al (2006) explain qualitative research as a technique of data collection and analysis that relies on non-numerical data. The nature of qualitative as against quantitative research and the philosophical debate that surrounds the veracity of either in the context of management research is addressed by Johnson et al (2007). Their paper found it difficult to generically describe qualitative research, so diverse was the response to their efforts to define it. Many of their interviewees saw quantitative research, whereby one draws conclusions from solid empirical evidence, as the only 'proper' research method, i.e. theory based on concrete and scientific-obtained data. However, due to the lack of hard data in the case of CRC, this paper will have to follow the line of Cassell et al's 2006 argument and develop a qualitative methodology.

Both of these papers (Cassell et al, 2006, and Johnson et al, 2007) refer to the "flexible and emergent nature" of qualitative research and that this gives it important added value as compared to the quantitative approach. By flexible nature, they refer to the ability for the research to change direction and evolve as more information is gathered and evidence is analysed – i.e. the researcher is able to redefine the learning process as it is happening. Saunders, Lewis and Thornhill (2007) describe the literature review as an upward leaning cycle whereby one continually refines and changes the parameters of the search as one learns more and this can also be applied in part to the qualitative research process that was undertaken for this project.

For the purposes of this research, we have now concluded that it will be difficult to accurately collect hard financial data from other sourcing organisations due to its sensitive nature, apart from CRC itself thanks to the researcher's position within the company. Therefore, other methods of finding relevant information to develop the paper must be explored.

In the UK, there are many thousands of venues and businesses such as CRC that will have their own sourcing strategy which might well include a catering element. Saunders, Lewis and Thornhill (2007) state that sampling techniques should allow the researcher to adapt their methodology to best fit with their requirements. This means that a particular form of sampling can be composed that will be able to fit in with the researcher's restrictions on time and access, whilst also providing a solid framework from which to evolve the findings and conclusions of the study.

3.4 Sampling Instrument

In their research, Johnson et al (2007) use purposive sampling as the main instrument to gaining information and evidence. Here, their aim was not to establish a representative sample, but instead, it was in order to identify key informants whose context-specific knowledge and expertise regarding the issues relevant to the research are significant and information-rich.

Purposive sampling is a technique within non-probability sampling where specific respondents are chosen for their likelihood to offer willing, knowledge-building and informative insight into the research question and subject area. According to Saunders, Lewis and Thornhill (2007), purposive sampling can be used by researchers adopting a grounded theory strategy when a theory is developed as a result of a series of observations or interviews, principally using an inductive approach.

Although an inductive approach normally involves the use of empirical data, this particular research intends to test out the theory behind the conceptual model in 2.3 by gaining the views and opinions of the main 'actors' within CRC's organisation, as well as key executives/directors in other organisations with knowledge of this and other kinds of sourcing decision. It is intended to be an exploratory study which can cast new light on the sourcing issue for the case in hand at CRC.

The attractiveness of other purposive sampling techniques, such as sending out a large number (200+) of questionnaires to key contacts was tempered by the potentially low number

of returns, as well as the quality of the information that might be received. In line with Johnson et al's (2007) need for information-rich sources, it was decided that the best way forward would be to identify a number of such individuals to whom the researcher could gain access to and to use the face-to-face semi-structured interview situation as the main sampling instrument.

Semi-structured Interviews

The nature of semi-structured interviews allows the interviewer to take advantage of the flexible nature of qualitative research by being able to change the line of questioning should an interviewee offer a pool of knowledge or opinion on an unexpected subject. This differs from both structured interviews, akin to questionnaires which are primarily used for gathering quantitative data, and the informal nature of unstructured interviews, where an inexperienced interviewer can sometimes omit to ask about key areas relevant to the research.

The choice of interviewees is also crucial as time restrictions meant that during the year, the researcher could only allow for up to 7 days leave from work to complete the interview process. Not only would the interviewees have to be influential and information-rich, they would have to be accessible from a practical point of view. Appendix A sets out a list of the interviewees along with their position, their employer and the date completed. The actual organisations are not all specifically named.

In order to gain the best access, face to face interviews were deemed as having the best possible results. For the location, the researcher traveled to all the interviewees so as to ensure the most possible time with each one. For each external interview, the researcher was smartly dressed, in keeping with the office situation.

In the first instance, the interviewee was contacted politely and formally by e-mail or by telephone to seek a meeting. When a time and location had been agreed, prior to the meeting taking place, the interviewee was sent a rough outline of the aims of the project and the subjects about which the research would like to discover more. The semi-structured

interview questions were not forwarded before the meeting as it was felt that this would give them time to prepare potentially “wooden” answers that were not necessarily accurate. An example of the pre-information sent out is included in Appendix B and the questions asked are set out during Chapter 4 which elaborates on the different angle of question and answer, dependent on the position and nature of the interviewee’s business.

In terms of recording information, the researcher felt that note taking during the interview was the best way as using audio equipment can be difficult not only in terms of sound quality in an unknown location, but also in that it can result in the interviewee not relaxing during the interview. Interestingly, in one instance, an interviewee made it clear that no audio equipment could be used, but that they were happy for notes to be taken.

In terms of limitations, it is recognised that the low number of interviewees outside of CRC’s main organisation limits the perceived depth of information collated across the topic areas focused on in the literature review. Saunders, Lewis and Thornhill (2007) observe that should one be wishing to gain a rich understanding of the context within which the research question is based, a case study strategy is often useful within an exploratory study such as this. Case study research, however, is also defined as the empirical investigation using multiple sources of evidence. Although there are plenty of examples, it is again doubtful how much empirical, factual, trustworthy data could be accessed in the sourcing sector.

The analysis of CRC’s position via the conceptual model (Figure 5), the themes and information generated from the interview process and the background understanding drawn out from the case studies is set out in Chapter 4. In Chapter 5, overall conclusions will be drawn from the thematic analysis of the interview results and the knowledge gleaned from the case studies. This will then allow the researcher to apply stage 3 of the conceptual model (Figure 5) and assess which sourcing model is potentially most beneficial for CRC in this case. Chapter 5 will also draw conclusions on and understand the implications of the research question and objectives, the methodology used and highlight any limitations to the project as a whole.

3.5 Timetable

Initially, the research proposal set out a project timetable with set periods allotted to each part of the research paper (see Appendix C). However, it transpired that the time given to seek out and organise external interviews was not realistic.

Another delaying factor involved changes internally within CRC. These changes in personnel meant that for the leading up to and during the first part of the racing season, study leave was not granted to the researcher to enable the continuation of the project. This meant that the research period had to be extended across the summer months.

3.6 Ethical Considerations

The insider nature of this project and the fact that some of the external interviewees were competitors to differing degrees meant that there were ethical concerns with aspects of this part of the research. As already mentioned, these competitors were happy to talk about sourcing strategy, but not able to divulge sensitive financial detail to prove or otherwise their success.

In terms of sharing CRC's financial data, again, the researcher was allowed access to this detail by virtue of his interview with the Company Secretary, but equally was not allowed to present anything other than an interpretation of the data within this paper owing to commercial sensitivities around CRC making public its intentions. Lastly, one of the interviewees was working for the current supplier and so therefore, that interview is off the record as otherwise, any opinions ventured could materially compromise him.

3.7 Summary

In summary, a qualitative research methodology was chosen for the project with the intention of gaining knowledge from information-rich participants through semi-structured interviews. Alongside this, a thorough analysis of CRC's current position using financial forecasting models will create a background to the research question, as well as offering an answer.

4. Findings

4.1 Introduction

This chapter will analyse the data and information that was collected using the methodology set out in chapter 3. This data comes from two main sources:

- 12 Semi-structured interviews (listed in Appendix A)
- CRC (financial report)

In the next chapter (5), these findings will be summarised and conclusions drawn from them. Of the 12 interviews, 6 were conducted internally, i.e. they were carried out with highly influential management figures and directors within CRC, giving insight to the CRC's aims, processes and motivations.

The 6 external interviewees were chosen carefully, with each one coming from a slightly different organisation in terms of structure, culture and size. Half of the interviewees were from racecourses or racecourse groups in order to give insight into the world of CRC's competitors and the specific world of racecourse catering. The others are from an international catering operation, a county council and a recently-opened and large scale events centre in Liverpool. It was thought that these three would offer a wide range of sourcing knowledge, but from an alternative and enlightening perspective.

4.2 Analysis of Chester Race Company Ltd

The conceptual model (figure 5) set out in 2.3 puts forward a method by which an organisation can assess its sourcing needs. Four stages are identified in the process as follows:

- Stage 1: For a business' relevant activities, gauge whether core OR non-core and assess strategic importance;
- Stage 2: Assess whether sourcing change (i.e. bring in-house core activities and/or outsource non-core) could be beneficial by financial analysis, benchmarking and strategic examination;

- Stage 3: Reach management consensus view;
- Stage 4: Implement change or not using identified processes;

As an emic research project, the researcher has been allowed access to CRC's important strategic and financial information through interviews with key Directors and Executives, which include full financial disclosure on the catering contract, (both current and forecast figures).

These sources were used to analyse CRC's current position and the first interviews were with the Chief Executive and two Directors, both of whom have been chosen by the CRC Board to inform, advise and make recommendations to it on the current catering issues. The researcher followed the conceptual model with his questioning:

Stage 1: Is the catering contract a core activity within CRC's business?

This question was put to internal interviewees and it elicited a unified response from the internal CRC Directors and Chief Executive who all identified this as a core part of CRC's business offering. However, this was qualified with the addition of certain comments:

- 1) There was a belief that as CRC's raceday product had evolved over the years into a "day out" package (proven with recent customer research), the catering product had become ever more intrinsic to that package. The raceday experience has changed with higher expectations from customers, including better quality, variety and value for money.
- 2) This point was developed further in that if CRC wishes to maintain and improve its competitive position in the leisure and events market, the importance of the catering will only grow further.
- 3) Although seen as a core part of CRC's product, it was not thought that the current CRC management team's expertise included the knowledge of how to operate a division such as this within the company.

Following the conceptual model (Figure 5), having identified the catering as a core activity, **Stage 2** is that of gauging whether a sourcing change could be beneficial for the catering operation, i.e. bringing it in-house. For this assessment, the model asks for three areas of analysis: finance, strategy and risk.

Finance

The accurate data for the financial plan was drawn up by the Company Secretary. This data is regarded as confidential to CRC and for the purposes of this research, it is necessary to talk only in percentage terms, rather than the actual figures.

In order to be in a position to compare like with like, the financial model of the potential catering in-house organisation was scrutinized as a division of CRC, but with exactly the same economic commitments to CRC as has the current external supplier. Under the terms of the current contract, the supplier is obliged to operate an open-book policy with regard to all transactions that take place at or with regard to CRC and from this, the Company Secretary has created what is believed to be an accurate picture of their income across the year. What the supplier's figures are not required to show are other forms of income that they receive from their own suppliers (retro payments food/beverage etc) and also, the extent of their costs, staffing or otherwise.

Using a consultant with an intimate knowledge of the catering industry alongside careful study of the supplier's operation, financial detail with regard to these areas has been realistically estimated. Overall, although there are caveats, the incorporation of the catering business into the CRC group could have the effect of increasing turnover by 43%, top line sales by 41% and pre-tax profit by 25%, over and above the present income levels from the external supplier's contract.

There were two main caveats that the Company Secretary highlighted: firstly the potential hidden capital expenditure costs (e.g. equipment/uniforms/CCG (Crockery, Cutlery and Glassware), although it was thought that the majority of this was accounted for; secondly the risk to the whole operation in the movement of the cost of sales. As part of the potential

group forecast, the figures were flexed to reflect a 2% and 5% increase in food, liquor and payroll cost of sales. Should these costs increase by 5% on budget, the report showed that any extra profit to be made from taking the catering in-house would be negated.

To summarise, it would appear that to bring the catering in-house could result in potentially lucrative financial gain for CRC. One of the directors made the point that in this case, taking the catering operation in-house is effectively the same as acquiring a business with a multi-million pound turnover for no cost. However, this is tempered by the huge effect of only minimal increases in cost of sales that could wipe out this gain. To better balance this potential loss, the figures put forward by the Company Secretary did not include any probable retro payments as these could not be accurately estimated. Effectively, these would be additional and significant extra income should the catering be taken in-house.

Strategy

As a way of identifying the strategic implications for CRC of bringing the catering in-house, during the interview with the CEO, a SWOT analysis was carried out that was subsequently added to, commented on and ratified by both Directors and the Company Secretary. This can be found in Appendix D and paints a positive picture for CRC.

By way of adding extra context, the CEO commented that having planned, developed and built Restaurant 1539 and then having run it as a joint venture for the past 18 months, CRC had a much improved idea of the complexities of the catering operation and the importance of driving down the cost of sales in order to maintain profit levels.

Risk mitigation

As listed in the “threats” section of the SWOT analysis in Appendix D, the internal interviews threw up a wide range of potential risks to the transition. As already specified, the risk of not controlling cost of sales could cancel out any positive gains and this is the most significant financial factor.

Also, the potential loss of economies of scale when negotiating food and beverage contracts in the market place was noted; the current external supplier operates at a number of venues and therefore is in a stronger position to agree contracts with suppliers than a single venue. The other risks that these interviews drew attention to mainly concerned the actual implementation of the change rather than the reasoning behind it.

The lack of change management expertise within CRC was identified as potential weakness in the SWOT results. This could be a huge risk for the organisation, but could be mitigated by perhaps bringing a consultant to the table with general experience in change management linked with specific catering knowledge.

The transition of the staff and HR aspects during the change process was also a concern for both Directors. They would want to ensure that key employees from the external supplier were motivated and incentivised to work for CRC and to guard against the risk of dislocation. All three interviews questioned whether the current CRC board and management structure had enough free capacity to cope with the extra demands of overseeing an additional division within the organisation, although this potential risk was weighed up against the fantastic synergies that could be achieved by working together.

CRC's position will be summarised and conclusions drawn (*Stage 3*) in the next chapter, with recommendations being made. However, the internal interviewees were all asked what would be the vital aspects of ensuring a successful transition if the decision was taken to take the catering in-house – *Stage 4*.

The two most important priorities were firstly to retain the best staff with their high-quality service levels and operational experience. Although these employees would legally be TUPEed over in any case, it was seen as vital to make that move attractive to them and to inspire their future loyalty to CRC. This could be achieved by clearly communicating with them as and when legally possible, and when allowed, to offer them an attractive employment package. Although this was also recognised as an extra cost, it would be

considered money well spent as it would obviate the need for recruiting and training new staff during a period of possible instability.

The other important area was that of the product itself – not only maintaining the quality expected by the customers, but also to create a new brand and market it appropriately. Customer belief and continued support would again be vital as the new in-house operation went through its initial phase. The marketing plan would have to clearly introduce and communicate the new values etc to all of our customers at the right time. On this subject, the CRC Chief Executive and the Directors believed that brand created through Restaurant 1539's initial success could act as a foundation to build a new brand going forward.

4.3 Thematic analysis of the research interviews

As can be seen in Appendix B, the nature of the questions put to the interviewees and the subjects covered were largely similar and in line with the subjects addressed in the Literature Review. Therefore, it was appropriate to use these questions as a framework for presenting the information that came out of the interviews. When drawing out comments from a particular source, the name or nature of the organisation has been used:

a) What are the key motivating factors in the sourcing decision, how are these assessed and which of the factors carries the most weight?

Interestingly, the chief motivating factors picked out by the 6 external respondents were all aligned to one of the four factors brought out in Chapter 2: namely financial, strategic, contextual and political.

For both of the 2 large racecourses, the main aim in taking control of their own catering was to reap the financial benefits and, to a lesser extent, control their own destiny. However, the racecourse attached to the group had supported its change with a viable strategic plan that fitted in with the group's 5 other venues across the UK.

The other racecourse group took a different contextual approach to outsourcing that was seemingly a product of the scattered location of their venues and the average ‘size’ of their 8 racecourses, which are probably small to medium-large. Although they outsourced “non-core” activities, such as ticket sales, website, cleaning and maintenance at their venues, this group also outsourced its catering, even though it was acknowledged as a central part of their revenue and a core activity. They believed that they did not have the necessary infrastructure to support a national network and that economies of scale meant that it would not be profitable to fulfil the catering operation in-house at any of their racecourses in isolation.

The caterer was strong in his belief that his organisation offered real strategic advantage to venues as an external supplier. He believed that alongside major capital investment and therefore shared financial risk, his company would look to build a proactive partnership that would give a venue access to superior, “best-in-class” quality, as well as a proven operator.

Effectively, the newly built ACC could be viewed as a start-up operation. Its basic initial strategy was to outsource where possible and to then quickly build up their core business activities, such as ticket sales, marketing and contract management, through good recruitment. By outsourcing, they were buying knowledge and experience in an effort to ensure that the business got it right first time on opening.

Lastly, the County Council approach can be largely politically driven. The government policy of the day had introduced outsourcing under the guise of compulsory competitive tendering in the 1980’s and this had been adapted in 2000, forcing local government to adhere to the best value policy. Outsourcing used to have a political slant, i.e. the Conservatives were for whilst the Labour party was against. This has changed somewhat in the past 10-15 years and there is now much shared ground on the issue.

However, in some cases, out-sourcing can take the form of a public-private partnership whereby a private company will put in huge capital investment in order to win a long contract for a particular service. It might be that, for example, a council does not have the funds to upgrade their IT infrastructure, but by agreeing such a deal with a private company,

this allows the council to achieve their goals, whilst the private company makes its profit across the term of the contract.

b) What frameworks are put forward to structure the sourcing decision and implementation process?

The sourcing decision had been reached through many different ways, some by default and the majority by normal assessment of their own strategic and financial situation. Seemingly, although they had assessed the financial ramifications, the large independent racecourse that had recently reverted its catering in-house, had not followed a set structure or framework as part of a change management programme. The racecourse in question found itself nearing the end of a 15 year contract with an external supplier with whom it had a rapidly deteriorating relationship. This state of affairs forced their hand and they had to decide on whether to find another partner or whether to in-source their catering in a very short four month timescale. This left them unable to plan effectively with the result that it took a year for the operation to begin to return to previous service levels, with profit still down 18 months later.

ACC Liverpool's approach was an extremely well-worked strategic exercise that identified the business' potential core strengths and focused on them. One of these core strengths was contract management which allowed them to outsource all other activities.

The two CRC directors both see the framework as beginning with a thorough assessment of the current supplier and both their operational and financial performance over the contract period. At the same time, whilst considering the in-sourcing of the catering, they also seek a full understanding of CRC's own capabilities to integrate an extra division and at the same time continue to perform successfully.

c) What are the risks and how can they be mitigated?

The large independent racecourse offers a salutary tale of how a lack of planning and knowledge of change management can heavily influence the transition and initial stages of a new supplier relationship, even if that is an internal one. Forced through lack of time, the

organisation took consultancy advice and acted on it. Unfortunately, although much of the advice in terms of putting supply relationships out to tender was solid, some of the more hands on aspects did not work out and they seemingly had to follow a back to basics approach 5 months into the contract with much revenue already lost.

An evolving planning process was very important of the group-linked large racecourse. This particular venue had closed for redevelopment for a period of 18 months, before reopening with an in-house group catering supplier. This downtime allowed for effective planning and a right-first-time strategy was successfully implemented when the course reopened in 2008.

The caterer's point of view focused on the early stages of the relationship between buyer and supplier. In his opinion, the mutual understanding of the scope and detail of the contract was a vital starting point, so both parties had shared expectations. This often means that potential problems are ironed out before they arise.

ACC Liverpool took the decision to engage in mid-to-long term contracts with their suppliers, generally over 3 years initially with another 2 year phase mutually agreed. Like the caterer above, they intended to create long term relationships with their "service partners" and wanted to work together to continually improve standards and service. Within their contracts, key performance indicators (KPI's) were not contractual for the first 2 years as they did not wish to pressurise their partners too much in the first instance, whereby they might fail. For ACC Liverpool, this partnership approach improves the chances of success for the contract relationship, reducing the risk of failure and the associated switching costs etc.

d) How will the company structure and culture have to change to effect successful management working relations when either outsourcing or bringing a service in house?

Along the lines of the contextual theme, the racecourse group has found that its choice of supplier has been vital in the sourcing process. In line with their strategy that an in-house catering operation would not work across its scattered venues, they have also chosen not to

sign up a national caterer across the group for the same reason. Instead, they aim at “best in class” regional suppliers which are a best-fit in terms of culture, size and contract experience.

This way, they have found that the local suppliers work harder and gel better with a smaller company, something that would potentially not be achieved with a national supplier.

ACC Liverpool’s view was that in order for any contracting/partnership programme to work, the internal company structure and culture should be outsource-ready as the first priority.

The large independent racecourse was of the view that, should one take a service in-house, doing so without enough experience and knowledge of the intricacies of the new operation within one’s own structure, mistakes would be made and momentum consequently lost.

e) What is the impact of TUPE legislation?

In general, TUPE was accepted amongst the interviewees as a normal legal requirement connected with the change of provision, albeit one that was sometimes viewed as an extra cost to the transition. That cost generally came in loss of productivity and re-training and re-motivating those staff moving across, as was discovered by the large independent racecourse.

When in-sourcing, the large racecourse attached to a group had closed for a period of 18 months prior to opening which meant that TUPE did not apply, allowing the recruitment of a fresh team who were motivated by the opening of the new grandstand facility.

4.4 Summary

In brief, this chapter has consolidated the information gathered from the qualitative interview process and used the themes raised by the research questions in chapter 2 as a framework to write up the most important and relevant results from the interview process. Prior to this, the chapter also assesses how CRC is positioned both financially and strategically and how it might cope with taking its catering operation in-house.

5. In-house or outsourced? Conclusions.

5.1 Introduction

This section draws together the findings from chapters 2 and 4 and allows the research the opportunity to outline exactly what has been learnt from the process, both in terms of new knowledge, the research methodology and the research question.

By examining the factual findings in the light of the theory brought out in chapter 2, we can draw conclusions for each of the research aims and the primary research question. The chapter will also discuss any of the project's limitations within its methodology and the knowledge gained, as well as offering suggestions as to further research areas.

5.2 Critical evaluation of the adopted methodology

Chapter 3 sets out the development of this project's methodology and how it evolved in order to best fit with the research problem.

A qualitative approach was taken, with the main source of information coming from 12 semi-structured interviews. The interviewees were chosen as offering both a wide-range of general knowledge on sourcing, as well as having area specific experience relevant to the catering industry. It could be said that only having 6 external interviews limits the project's ability to make general conclusions. In order to add weight, it would have been preferable to meet with a larger number of suitable interviewees, although it is difficult to quantify exactly how big a sample this should be. The sample instrument – the semi-structured interview – was seen as being the most effective way to gain quality feedback.

Another research method touched on in chapter 3 is that of case study research. This paper could have benefited from looking at two or more organisations similar to CRC, specifically from the examination of the financial results associated with bringing a catering operation in house. It is difficult to gain access to this information, but this would have lent a real insight into potential pitfalls and allow a true benchmarking exercise to be carried out.

By casting the net wider for more anecdotal and detailed information, this paper could have enhanced the breadth of knowledge gained, as well as offering more concrete foundations for the conclusions and recommendations. However, it must be recognised that the researcher was operating within the constraints of time available and lack of access to the financial accounts of other similar businesses.

5.3 The research aims – conclusions.

Each research aim is examined in light of the paper's findings and literature review and the questions used in chapters 2 & 4 allowed the research to draw several conclusions.

5.3.1. To research literature and theory on the factors behind a business' sourcing strategy and its financial, HR and operational implications and, with reference to making the sourcing decision, to propose a framework for the delivery of the potential change from/to outsourcing and in-sourcing.

Sourcing strategy has developed both in theory and practice over a long time period, although its incidence in all sectors of business has increased dramatically in the last 20 years. Even though most of the focus is on outsourcing, many of the suggested principles and important factors identified are also relevant to bringing an activity in-house. The paper has found that outsourcing's drivers, criteria and frameworks are also appropriate to the in-sourcing practice.

To conclude, Jennings (2001) outlines a generally shared view that a company's core activities are those that give it competitive advantage and therefore drive profit. Following on, the consensus view is that only non-core parts of the business should be considered for outsourcing as otherwise, that advantage is put at huge risk. The financial benefit of changing one's sourcing strategy must be the main driver behind this business decision, with the benefits achieved either through decreasing costs or increasing revenue. However, other strategic, contextual and political factors must be taken into account.

Strategically, the impact of changing sourcing strategy on the quality of the product or service and the customers' perception of it are vital considerations (Blumberg, 1998). If there is considerable risk that either of these could be lowered or damaged, then there equally must be considerable doubt that a sourcing change is the right decision (Kremic, Tukel & Rom, 2006).

It must be remembered that outsourcing can also give access to better quality products and new technologies (Jennings, 2001), although sometimes an organisation's expertise or technical knowledge might be too specialised, meaning that a supplier will not be able to meet this level of quality (Alexander & Young, 1996).

The contextual factors relate to 'local' aspects that will be different for each business, including the specific industry, the location, the size of the business, the number of employees etc. These will all impact on the viability and structure of a particular sourcing arrangement and must be taken into consideration. Political drivers behind the sourcing decision only really have bearing in the public sector where changes in government policy can radically affect, for example, a local authority's approach to sourcing any/all of their services. However, universal legislation such as TUPE affects all business and it is vital that its implications are given serious thought.

The conceptual model outlined in chapter 2 (figure 5) offers a concise and comprehensive route through the sourcing decision and the implementation of potential change, based on theory put forward in the literature reviewed. Through its four stages, the model identifies the vital points that must be addressed during the process in order to try and ensure a successful sourcing partnership. Within the review, an important aspect of this framework involved identifying potential risk areas and coming up with ways of planning for and mitigating them.

Risk centres on three main areas: the right choice of supplier, the management of expectations from the partnership and the overseeing of the transition process with explicit reference to the human resources angle.

The risks associated with the choice of supplier, be it internal or external, start with the fundamental economic criteria that the supply organisation is solvent and financially secure. For any contract, the cost and impact of failure can have huge ramifications for the business and so, the more that can be done to avoid this, the better. Zineldin & Bredenl w (2003) believe that this can be achieved through building a true partnership with the supplier or a “strategic alliance”. This relationship will involve cultural and organisational synergies, strategic fit and incentivised benefits for both parties based on its success. In order to have shared and realistic expectations, (Zhu, Hsu and Lillie, 2001) a successful outsourcing process starts with a good contract that fits with the capabilities of both parties and sets out every eventuality.

Leading into any sourcing change, employee motivation and buy-in is vital to ensuring that the quality of the product or service is not interrupted or affected during a period of possible instability. The risk of dislocation of staff from the process, especially if there is a possible threat to their long term employment, is very high. In order to moderate this risk, there must be a full and detailed communications plan for all employees that sets out what is happening, how it will affect them and what their future contract and role will be (Zhu, Hsu and Lillie, 2001).

Thirdly, it is vital to manage the expectations of both parties (i.e. outsourcer and supplier), including when the business is taking an activity in-house. Then, it is even more important that the sourcing organisation is realistic with its own expectations and uses some form of external benchmarking to evaluate the progress and success of the transition.

Brannemo’s 2006 concept of rightsourcing appeals as a continual strategic approach to sourcing. Any organisation that decides to outsource or in-source an activity must plan to be able to reverse that decision after a set time for two reasons: firstly, if the results, both financial and strategic, are not meeting required levels and secondly, if the specific market place and competitive environment alter so as to make a change advantageous.

5.3.2. To investigate real outsourcing/in-house situations at venues (racecourses, conference centres etc.) when the catering function has changed from one to the other.

Of the 6 external interviews, 2 of the organisations represented had recently in-sourced their catering operation, another had decided not to and another had outsourced the catering from its inception. The chief issues raised in each interview are set out in chapter 4.3 and of those that had in-sourced, a number of issues, both positive and negative, came out as points to take on board.

In conclusion, the key drivers behind these changes or otherwise did differ from one to another, although financial incentive was at the top of the list for each organisation. Allied to this was a mixture of strategy, necessity and context.

ACC Liverpool's example whereby the catering had been outsourced from the start is a clear example of Probert's (1996) example of creating an 'ideal Greenfield scenario', when a business model is set up unconstrained by inherited conditions. ACC Liverpool's strategic premise was to concentrate on key activities at a particular stage in the development of the business and outsource other slightly less important activities to a reputable operator with the relevant and proven experience. That is not to say that following the initial five year contract, ACC Liverpool would not be ready to look to in-source their catering operation, a business model that is successful at other comparable venues in the UK.

The independent racecourse's decision was born of necessity as they were faced with limited options and a short lead-in as they approached the end of a 15 year contract without having explored other available alternatives. Conversely, the other large independent racecourse (linked to a larger group) had a long lead in period with which to plan and build up its own in-house operation. This clearly points to a suitable planning period being of vital importance to the sourcing decision making framework.

The application of best fit between organisations is also an important element to the success or otherwise of a supply partnership. The racecourse group purposefully chose to go with

local “best in class” caterers to whom the various contracts were an important part of their business. Likewise, ACC Liverpool chose a local operator with a strong North-West brand rather than a national operator. However, they did due diligence to ensure that the operator would be able to fulfill the contract requirements on the necessary scale and quality level needed.

In terms of human resources and a change of supplier, the implications of TUPE regulations can not be ignored. Employees have to be transferred over and so careful consideration must be given to the best way of ensuring that there is buy-in to the new organisation. Otherwise, there is significant risk of dislocation from the change project.

5.4 CRC catering: outsourcing or in-house? Conclusions and Recommendations

The last of the research aims effectively looks to bring together all the knowledge gleaned through the literature and research to answer the main question: Outsourcing Vs In-sourcing - analyse the business proposition in the case of Chester Racecourse’s catering contract.

In 4.2, CRC’s catering contract dilemma was applied to stages 1 and 2 of the conceptual model framework (figure 5) using feedback from the 6 internal interviews. For stage 1, the consensus view was that the catering operation was core to CRC’s future strategic development. The control of this important aspect of the business fitted strategically, as long as the new division team had the right expertise and experience and were sufficiently motivated.

For stage 2, sourcing “due diligence” was carried out by evaluating the three areas of finance, strategy and risk so as to be best informed before making the sourcing decision:

- **Financially**, there are large incentives for CRC to take the catering in-house, based on realistic and well-researched projections.
- **Strategically**, a balanced overview of the SWOT analysis (Appendix D) shows that there are also clear benefits to taking the catering in-house. With the recent

addition of a full-time restaurant at the Racecourse, the CRC executive also now has a better understanding of the catering operation and its core elements.

- However, the SWOT analysis also sets out the future **risks** to the business model. Below each risk, a specific recommendation has been suggested as a way of mitigating the threat posed. (Appendix D).

From Chapter 4, the two key risks identified are the transfer of employees, including the desired long term retention of the key managers, and how to manage the customer facing aspect of the business and the creation of a new brand.

In conclusion, having followed through the framework put forward in the conceptual model, although there are potential risks that will have to be managed, this paper has to recommend that it is the right course of action for CRC to take on the running of the catering operation as an in-house division of the company.

The key financial, strategic and human resources-based risks, both general and pertinent to the case in hand, have been identified during the research process. These must be weighed up during the planning process as CRC moves to take over the operation in January 2010 and controls put in place to mitigate their consequences.

Looking ahead, CRC should adopt the rightsourcing approach. Just because the decision has been taken to revert the catering in-house does not mean that this will be the best option in five years time. CRC must continually review the division's performance against budgeted expectations, whilst also considering its relative competitive strengths. A clear case to outsource the catering in the future must not be ignored.

5.5 Limitations

The limitations of this study's methodology have been noted in chapter 3 and 5.2. Looking at the study itself, the literature review's findings were based on a real consensus of opinion amongst the writers analysed. However, Jiang and Qureshi (2006) bring up a noteworthy

limitation to the study of sourcing as a whole: this centres on the fact that etic research of the impact of sourcing supply change is extremely difficult to measure, due to a lack of evidence.

Another limitation to the findings of the research are that it has predominantly performed within the boundaries of racecourse catering, not ignoring what was learnt from both ACC Liverpool and Worcestershire County Council. Although the conceptual model gives a generic approach to sourcing strategy, its application to this relatively small catering sector is only of limited relevance to other industry. In order to consider other industries and business sectors, the contextual factors will always affect the end decision.

5.6 Opportunities for further research

There are two areas for further research that need to be examined further in order to better understand the sourcing scenario. Firstly, as already noted, there is a distinct lack of theory given over to the act of reverting an activity back in-house, having previously outsourced it. This ties in with Brannemo's 2006 theory of rightsourcing, whereby an organisation is ready to change sourcing strategy according to current success and the changing market environment. Thirdly, there is a distinct lack of theory specific to the catering industry's approach and reaction to changing position from an external supplier to an internal one or vice-versa.

In terms of methodology, it would seem the qualitative approach is best due to the lack of access to suitable data, although it is necessary to widen the net in terms of industry sectors covered and the size of the research sample taken.

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APPENDICES

Appendix A

RESEARCH INTERVIEWS COMPLETED

Internal

CEO CRC	January & July 2009
Director CRC	January 2009
Director CRC	January 2009
Financial Controller CRC	July 2009
MD Heathcotes Outside @ CRC	July 2009

External

MD, INDEPENDENT LARGE RACECOURSE 1 February 2009

" This racecourse is of a similar scope to CRC and in-sourced catering operation in 2008

MD, LARGE VENUE CATERER March 2009

International catering operation that does events on major scale, as well as at other large racecourses and venues (sporting/historic)

Group Operations Manager (Racecourse Group) April 2009

" Large racecourse group that owns 8 medium to small racecourses spread around the UK, outsourcing catering at each venue.

FD, ACC Liverpool (Echo Arena) June 2009

Has been with the ACC since project started, previous experience at NEC. ACC outsources catering whilst NEC in-sourced operation during his time there.

MD, LARGE RACECOURSE 2 June 2009

Large racecourse part of another racecourse group of 6 courses that has recently taken catering operation in-house (2007)

Strategic Procurement Manager July 2009
Worcestershire County Council

Appendix B

Example of Pre-Information sent prior to interview with

Research Interview with:

Location and timing:

Questions and discussion areas

- 1) General discussion about recent history and operation of ACC
- 2) What aspects of business does ACC outsource and for what reasons?
 - Sales
 - Ticketing
 - Cleaning/Security/Maintenance
 - Stewarding
 - Sound, lighting, rigging
 - catering
 - other functions?
- 3) What aspects of business does ACC perform in-house?
- 4) How was the tendering process and contract negotiation carried out?
- 5) What were the key criteria for choosing each partner?
- 6) How are contracts benchmarked and what kinds of Service Level Agreement are included?
- 7) Happy that have chosen right partners?
- 8) Future plans? Is rightsourcing a possibility?

Appendix C

Proposed plan of work:

- a. Identify main aims of project – October/November 2008. *Achieved*
- b. Initial review of general literature relevant to outsourcing and in-sourcing for Research Proposal – November 2008. *Achieved*
- c. Complete Research Proposal and Presentation - November/December 2008 *Achieved*
- d. Wider literature research, to include specific catering/hospitality theory, case studies – aim to complete literary review in January/February 2009. *Initial draft by end of March*
- e. Research interviews – identify positive contacts that will potentially yield most information/help – January/February 2009 *Although potential interviewees were identified, it proved difficult to gain access to external contacts as quickly as had been thought, Initial internal (CRC) interviews were completed as scheduled.*
- f. Start liaison with CRC/HOL in order to put together financial modelling – February/March 2009 *Company Secretary was only able to release full modelling results in late June, and analysis followed*
- g. Begin writing up of dissertation – March 2009
- h. Complete first draft, including conclusions and recommendation – April 2009
- i. Re-drafting, proof reading, printing of Project – May 2009
- j. Official hand-in date - 4th June 2009

Obviously, the initial hand-in date was missed. The situation within CRC with regard to its catering contract and important decisions made by the Board did not really take place until May/June and were only confirmed at Board level in mid-June. This is the principal reason for the delay in the project and the missing of the official deadline.

Appendix D – General SWOT analysis of CRC position, taking into account potential in-sourcing of catering division:

STRENGTHS

- Current infrastructure - very strong, well experienced team – both operational and commercial.
- Good understanding of financial operations from both parties.
- Impressive reputation for delivering high quality catering for racecourse and external events.
- Strong supply chain and negotiation skills.

WEAKNESSES

- Lack of Organisational Change Management experience on both sides – the transition period must be managed effectively and external support may be required.
- Poor communication historically – it is essential that everyone involved in the process is aware of the business objectives and potential changes.
- Use of race course facilities has not been optimized historically (see Opportunities – Community below).
- Separate Sales and Marketing strategy for Race day and Non Race day.

OPPORTUNITIES

- Single communication externally from CRC to wide range of customers, to include race day general sales, hospitality, non race day conference, weddings, parties, hotel and Restaurant 1539.
- Single sales team with specialist in specific areas – this will counter the current peaks and troughs of demand that comes with Race Days.
- Utilise the race course more effectively on non race days through an understanding of community based funding initiatives such as PCT – these have been successfully managed by other of the region's sports venues to create additional revenue streams.
- Work closer with the Public Sector – the changes to the local government highlight opportunities where we can work more effectively with Cheshire West and Chester in their future plans for Culture and Recreation in the region.
- Work closer with Regional Development Agency – as an amalgamated organisation we will become a much bigger player in the eyes of the NWDA – we must ensure that we have effective lines of communication into the agency.
- Become a major events centre for the North West – work with local and regional agencies to ensure that we deliver events which provide significant economic impact to local area.
- Outside Catering
- Restaurant expansion?

THREATS *(and mitigating recommendations)*

- Loss of key catering management

The key catering staff must be proactively incentivised to buy into the change so as to maintain stability and operational performance.

- Control of cost of sales, stock taking, labour costs

There is a huge financial risk with the cost of sales which will require very detailed monitoring for initial 2 years, with fortnightly financial reporting and benchmarking against budget and previous performance.

- Lack of Organisational Change Management experience on both sides – the transition period must be managed effectively and external support may be required.

Use consultant with good catering track record with new restaurant/catering operation to advise

- Loss of economies of scale when negotiating food and beverage contracts in the market place that would be enjoyed by current external supplier.

Begin negotiations well in advance and use consultant for advice on contract and figures.

- Loss of External supplier's brand – how significant?

The previous supplier's customer facing brand has gained loyalty and a good reputation over course of their contract (5 years). It is important to evolve a new high quality brand going forward in order to retain customer faith, possibly associated with Restaurant 1539.

- Poor internal and/or external communication – all stakeholders must be fully bought into the new business objectives and principles. It is essential that everyone involved in the process is aware of the business objectives and potential changes.

The key HR challenge is to bring the whole group together working with the catering division without losing momentum or motivation. Externally, the public relations campaign must offer an extremely positive picture. Regular racing and event customers must be given the news ahead of time.

- Changing economic market – all areas of the business must be flexible to ensure that we are delivering the kind of product and price mix that the market demands.

There will now be more flexibility to react to price sensitivity if needed, although vital that margin is protected in order to ensure return.

- Reliance on casual labour – the nature of the Events Industry requires a heavy reliance on temporary staff which may dilute CRC's brand messaging and service level – a comprehensive training program should ensure that this is not an issue.

External supplier already has good quality training and recruitment scheme to fulfill raceday requirements that can be up to 1000 casual staff per day. It is very important to maintain the current systems and personnel manager.